

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03  
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 /081 W  
-----180237Z 125596 /66

R 172322Z JUN 77  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 3852  
INFO AMEMBASSY PARIS  
AMCONSUL MONTREAL  
ALL OTHER AMCONSULS IN CANADA (BY POUCH)

LIMITED OFFICIAL USE SECTION 01 OF 02 OTTAWA 05259

USOECD

DEPARTMENT PASS TREASURY, FRB

E.O. 11652: N/A  
TAGS: EFIN, CA  
SUBJECT: FIRST QUARTER 1977 CANADIAN BALANCE OF PAYMENTS

REF: OTTAWA 532 AND 1591

1. SUMMARY. FIRST QUARTER 1977 CANADIAN SEASONALLY  
ADJUSTED CURRENT ACCOUNT DEFICIT NARROWED TO DOLS 841  
MILLION FROM A DEFICIT OF 1,092 MILLION IN FOURTH  
QUARTER 1976. IMPROVEMENT WAS DUE LARGELY TO STRONGER  
MERCHANDISE TRADE SURPLUS OF 780 MILLION. THE SERVICE  
ACCOUNT CONTINUED TO DETERIORATE, MOSTLY DUE TO HIGHER  
PAYMENTS FOR TRAVEL ABROAD BY CANADIANS. ON THE CAPITAL  
ACCOUNT, BORROWING ABROAD SLOWED FROM THE HIGH LEVELS  
OF LAST YEAR WHILE STILL REMAINING AT HISTORICALLY  
HIGH LEVELS. DIRECT INVESTMENT IN CANADA WAS POSITIVE,  
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ENDING A PERIOD OF DISINVESTMENT, ALTHOUGH TOTAL NET  
DIRECT INVESTMENT REMAINED NEGATIVE. THERE WAS A SMALL  
POSITIVE BALANCING ITEM IN THE CAPITAL ACCOUNTS, RE-  
VERSING THE VERY LARGE NEGATIVE BALANCING ITEM IN THE  
FOURTH QUARTER OF 1976 WHICH HAD BEEN ATTRIBUTED TO  
LEADS AND LAGS IN EXPECTATION EXCHANGE RATE DEPRECIATION.  
END SUMMARY.

2. THE SEASONALLY ADJUSTED CURRENT ACCOUNT DEFICIT IN THE FIRST QUARTER OF DOLS 841 MILLION (ALL FIGURES IN CANADIAN DOLLARS AND SEASONALLY ADJUSTED UNLESS OTHERWISE NOTED) WAS THE SMALLEST QUARTERLY DEFICIT WITH ONE EXCEPTION SINCE THE FOURTH QUARTER OF 1974. NOT SEASONALLY ADJUSTED, THE CURRENT ACCOUNT DEFICIT WAS DOLS 1,576 MILLION.

3. MOST OF THE IMPROVEMENT WAS DUE TO VERY STRONG EXPORTS WHICH INCREASED DOLS 1.1 BILLION (12 PERCENT) OVER THE PREVIOUS QUARTER, MOSTLY DUE TO STRONGER EXPORTS TO THE U.S. (UP 15 PERCENT). IMPORTS ALSO SHOWED A STRONG INCREASE OF EIGHT PERCENT. PART OF THE INCREASE IN THE VALUE OF BOTH EXPORTS AND IMPORTS MEASURED IN CANADIAN DOLLARS IS ATTRIBUTABLE TO THE ROUGHLY EIGHT PERCENT DEPRECIATION OF THE CANADIAN DOLLAR LATE LAST YEAR, AS THE U.S. DOLLAR PRICE OF MANY CANADIAN EXPORTS AND THE SHORT RUN CANADIAN DEMAND FOR IMPORTS IN VOLUME TERMS ARE BELIEVED TO HAVE SHOWN LITTLE CHANGE. WITH EXPORTS RISING FASTER THAN IMPORTS, DUE MOSTLY TO THE STRONG U.S. ECONOMIC PERFORMANCE IN THE FIRST QUARTER, THERE WAS A DOLS 780 MILLION MERCHANDISE TRADE SURPLUS, ALMOST TWICE THAT OF THE PREVIOUS QUARTER AND THE LARGEST SINCE THE LAST QUARTER OF 1973.

4. THE SERVICE ACCOUNT CONTINUED ITS LONG TERM GROWING DEFICIT, INCREASING BY DOLS 164 MILLION TO A DEFICIT OF DOLS 1,751 MILLION, A NEW PEAK. NET PAYMENTS ABROAD OF LIMITED OFFICIAL USE

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INTEREST INCREASED ABOUT DOLS 50 MILLION, BUT PAYMENTS OF DIVIDENDS DECLINED BY ALMOST DOLS 75 MILLION, GIVING A SLIGHT DECLINE IN NET INTEREST AND DIVIDENDS PAID ABROAD TO 740 MILLION. THE LARGEST INCREASE IN THE SERVICE DEFICIT CAME IN TRAVEL, REGISTERING AN INCREASE OF OVER DOLS 100 MILLION TO DOLS 410 MILLION. ALMOST ALL OF THE INCREASE IN THE TRAVEL DEFICIT CAME IN GREATER SPENDING BY CANADIANS FOR TRAVEL ABROAD, AS CANADIAN PREFERENCES FOR WINTER VACATIONS IN WARMER CLIMES CONTINUED TO GROW. TOURIST RECEIPTS IN CANADA REMAINED ESSENTIALLY FLAT (UP DOLS 3 MILLION).

5. NET INFLOW OF LONG-TERM CAPITAL (NOT SEASONALLY ADJUSTED) WAS DOLS 1,010. THERE WAS A POSITIVE DIRECT INVESTMENT INFLOW OF DOLS 135 MILLION, REVERSING THE DIRECT DISINVESTMENT IN CANADA IN THE SECOND HALF OF 1976 WHICH RESULTED LARGELY FROM THE ACQUISITION OF U.S. FIRMS IN CANADA BY CANADIANS. LARGER DIRECT INVESTMENTS ABROAD BY CANADIANS IN THE FIRST QUARTER

RESULTED IN A NET DIRECT INVESTMENT OUTFLOW FOR THE  
QUARTER OF DOLS 35 MILLION. THERE HAS NOT BEEN A NET  
QUARTERLY DIRECT INVESTMENT INFLOW SINCE THE MIDDLE  
OF 1975.

6. MOST NET LONG-TERM CAPITAL INFLOW RESULTED FROM NEW  
PORTFOLIO ISSUES ABROAD BY CANADIANS (MOSTLY BOND ISSUES  
IN NEW YORK) OF DOLS 1,428. THIS REPRESENTS A DECLINE  
IN THE RATE OF CANADIAN BORROWING ABROAD SINCE THE END  
OF 1975, REFLECTING IN PART LOWER INTEREST RATE DIFFER-  
ENTIALS WITH THE U.S., BUT IS STILL AT HISTORICALLY HIGH  
LEVELS.

7. THE BALANCE OF SHORT-TERM CAPITAL MOVEMENTS WAS A

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DEFICIT OF DOLS 200 MILLION. THERE WAS A LARGE REDUCTION  
OVER THE PREVIOUS QUARTER IN THE BALANCING ITEM, REPRESENT-  
ING ERRORS AND UNIDENTIFIED TRANSACTIONS, FROM AN APPARENT  
OUTFLOW OF AROUND DOLS 1.85 BILLION TO AN APPARENT INFLOW  
IN THE FIRST QUARTER OF ABOUT DOLS 175 MILLION. THE  
LARGE APPARENT OUTFLOW IN THE FOURTH QUARTER TOOK PLACE  
BEFORE AND DURING A LONG-PREDICTED DECLINE IN THE CANADIAN  
DOLLAR EXCHANGE RATE, GIVING EVERY INDICATION OF BEING  
LARGELY DUE TO A CLASSIC CASE OF PAYMENT LEADS AND LAGS.  
IN THE FIRST QUARTER, WITH THE EXCHANGE RATE MORE STABLE,  
THIS PHENOMENON WAS NO LONGER APPARENT.

8. TABLES. FIRST QUARTER BALANCE OF PAYMENTS, MILLIONS  
OF CANADIAN DOLLARS

A. CURRENT ACCOUNT BALANCE, SEASONALLY ADJUSTED

MERCHANDISE TRADE (BOP BASIS) 780

SERVICES (1,751)

OF WHICH

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TRAVEL (410)

INTEREST AND DIVIDENDS (740)

NET TRANSFERS 130

TOTAL CURRENT BALANCE (841)

B. CAPITAL ACCOUNT BALANCE, NOT SEASONALLY ADJUSTED

LONG-TERM CAPITAL 1,010

OF WHICH

DIRECT INVESTMENT (35)

PORTFOLIO 1,191

OF WHICH

NEW ISSUES 1,428

SHORT-TERM CAPITAL AND

BALANCING ITEM (200)

TOTAL NET CAPITAL 810

C. RECAP

CURRENT ACCOUNT BALANCE, NOT

SEASONALLY ADJUSTED (1,576)

CAPITAL ACCOUNT BALANCE 810

CHANGE IN RESERVES (766)

ENDERS

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## Message Attributes

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